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Services and advertising effectiveness. An empirical study of the Dutch health insurance market.

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CHAPTER 6

SUMMARY AND CONCLUSIONS

6.1 Introduction

As the title indicates, this book is on services and advertising. As mentioned in the introduction, delivering a good service does not happen by accident. On the contrary: services must be managed and marketed. Services also require planning in order to develop a strategy aimed at the outperformance of competitors in satisfying consumer needs within the organisation's objectives and competences.

Services must also be communicated toward the organisation's target groups, the customers and prospective consumers, but as we have seen also toward its employees.

The purpose of this book is to answer the central question, reflected in its title: what can we say about the effectiveness of advertising when services are involved and what problems do services meet when being advertised?

6.2 *Services and advertising: the study*

In the first chapter of this thesis the development has been sketched of the marketing concept as a managerial philosophy regarding the relation between the organisation and its environment. The most recent version of this marketing concept, the strategic marketing concept, demands not only being aimed at the satisfaction of consumers and target groups, but attention should also be devoted towards the organisation's environment, which particularly implies the identification and diagnosis of competition.

Marketing as a problem field is based on Kotler's definition of marketing and relevant in all situations in which an 'exchange of values' is involved. This appears the case not only for firms manufacturing goods, but also for service firms.

From a marketing point of view there is a clear need for an organisation to know what is going on in the marketplace by means of market research because the target groups' wishes and needs, perceptions and expectations are central within the marketing concept.

According to the author, positioning research as a form of perception research offers good possibilities of gaining a clearer insight into the problems which are relevant to consumers in their decision process with respect to companies offering services.

As discussed in chapter 1, there are several reasons to conduct perception research and positioning research in health care. The most important reason is that in case of uncertainty regarding the service offered, the consumer will often be guided by his perception of the service

organisation. The way the service-rendering organisation is perceived is probably more important to its ultimate success than the actual characteristics of its service.

Further positioning studies are particularly appropriate to answer the question who are the organisation's (most important) competitors. Using MDS helps to determine how the organisation (and its products) is perceived by consumers in relation to its competitors (and their products) on two or more dimensions.

Many authors have indicated that in a number of respects services are conceptually different from goods. Although a few authors have denied a specific marketing approach for services, the vast majority point to special marketing management considerations. In order to implement this marketing concept in a service-rendering organisation, at least two important pillars can be discerned: consumer and competitor-orientation.

In our view, these differences also lead to the supposition that a considerable number of concepts which are well-known from the marketing of goods have varying contents in a service context and moreover, their relationships may be different from what we would infer by mere generalising from the marketing of goods.

In a number of cases an indication of the effectiveness of the service organisation can be obtained well by performing judgment- and result-measurements. As such, measures of service effectiveness or levels of service are believed to be primarily subjective.

Determining the quality of a physical product is much easier than measuring the quality of an intransparent service. The nature of services does not lend itself to

quality control, although meritorious efforts in this field have been made¹.

A number of the characteristics typical for services often lead to a higher perceived risk and a higher involvement than in the case of goods. Chapter two is devoted to an elaborate discussion of the individual advertising response models and the importance of consumer involvement to the way in which people respond to advertising.

The traditional hierarchy-of-effects models supposed a more or less strict sequence of a number of stages, but nowadays such a process is considered to be a too simple representation. It is rather assumed that in each stage all three aspects of the consumer decision process (cognition, affection, conation) are present. However, the stage determines the dominance of these aspects. Involvement is one of the conditions affecting and nuancing the advertising's processing and, consequently, the effects of advertising. The different approaches on the involvement concept and the factors influencing its nature and intensity were elaborately discussed.

To be able to influence consumer decision making, it is necessary to define and test assumptions on how advertising works. Petty and Cacioppo's ELM model distinguishes between two routes of advertising persuasion, a central and a peripheral one. In case of high involvement the cognitive elaboration likelihood of the advertising information will be higher and the central route should be more effective: high involvement will lead to trade-offs between alternatives on the basis of characteristics perceived as being important. Under conditions of low involvement, when the elaboration likelihood is low, the peripheral route should be more

appropriate. In the latter case, heuristics are used and information will be evaluated only superficially, on the basis of extrinsic and contextual message cues. When the central route is followed, attitudes will be more resistant to persuasion: the advertisement's information content will be their most important determinant. According to the ELM, high involvement will only occur if two necessary conditions are fulfilled. The consumer must be motivated to process the information and he must be (mentally) able to do so. If one of these conditions of motivation and ability is not met, the consumer's involvement level as a consequence will be low. According to the author, other variables may also be necessary conditions for a high involvement level.

Risk perception leading to involvement and, to a lesser extent, the consumer's ability are believed to play a role in his decision making with respect to services. In particular the intransparency of many services makes Petty and Cacioppo's ELM model relevant.

It may be expected that the intransparency of the service, the complexity of its characteristics and the market structure will have a decreasing effect on the ability of the consumer to process information correctly, while high costs and the long-lasting commitment will increase the consumer's motivation to process information carefully in order to make a good choice. Together these characteristics have their effect on involvement and as such on the effectiveness of advertising and other communication. In chapter 3 we learned that the service's intransparency and variability are the main reasons leading to a higher level of perceived risk with the potential consumer. Consumers characteristically develop their own strategies for reducing the risk perceived.

Usually this means either a reduction of the uncertainty associated with a possible purchase, or a decrease of purchase intent. In general, this is not the purpose of marketing activities, so the service-rendering organisation will have to decrease the consumer's perceived risk.

As the empirical part of this study took place on the Dutch health insurance market, in chapter 4 a conceptual framework for insurance research has been introduced. Next the differences were discussed between publicly and privately insured persons; differences which may partly be explained by the way health insurance is arranged in the Netherlands.

The consumer's decision process with respect to private health insurances has been put in a theoretical model also described in this chapter. In this model the relationships are described between possible independent variables and the resulting insurance-buying behaviour. Important parts of this model within the context of this study are the consumer's involvement and perceived risk.

The results of our research on the health insurance market shown in chapter 5 indicated that the use of aggregate data in explaining market shares on the basis of advertising shares, did not contribute much to the determination of advertising effectiveness in this service market, while this kind of research is often used with good results in several branches of fast-moving consumer goods.

Although the Dutch health insurance market may be a positive exception with respect to the availability of bi-monthly advertising expenditure data, market shares in this market are only determined once a year. Consequently, we were driven back on other - individual - data.

Therefore we investigated the relationships between the variables that play an important role in the model, particularly from a communication point of view. We found a number of stronger, moderate and weaker correlations. Although we found a rather strong relationship between involvement and information search, it appears to be the fact that consumers choosing a service think that first of all the quality of information is important and not necessarily the amount of it, as is usual in the marketing of goods domain.

We identified three different groups of consumers on the basis of their specific way of using various information sources as a means of risk handling, trying to make a satisfying choice.

We also investigated the ELM model using data from the Dutch health insurance market. Originally we extended the model by introducing the consumer's time perspective as an additional variable, and it was assumed that involvement is influenced by the consumer's motivation, ability and time perspective. This time perspective factor however was found to be irrelevant. Nevertheless it is certainly conceivable that other variables should be included as explanatory variables in our model as well as the ELM model. To find out which, in our view would be an excellent task for economic psychology, while extension of this kind of research to other branches of business by means of cross-sectional analyses would create a possibility to derive generic conclusions.

In any case, for the time being it seems justified to assume a strong relation between motivation and ability as explanatory variables and involvement as the dependent variable, results supporting the ELM model.

With respect to the role advertising plays in the service domain, it is assumed that the organisation's image has an important effect on the organisation's communicated positioning, which in its turn plays a crucial role in the consumer's decision process, in particular as a means to decrease the perceived risk associated with service-offering organisations.

As we have seen in chapter 1, there are several reasons to conduct perception research (which includes image and positioning research) in health care as well.

In this study we limited ourselves to positioning research, particularly with respect to the positioning of the six NPZ companies in the Dutch private health insurance market.

It was found that the fifteen most frequently known health insurers are more or less equally well-known among the insureds of all six NPZ companies which participated in this study.

As too many assumptions had to be made with respect to the collected data, and moreover, because we run into several other problems trying to describe by means of PC-MDS the positioning of the NPZ insurance companies as perceived by their insureds, unfortunately we had to decide not to include the results of this analysis in this thesis.

6.3 Advertising and the positioning of services

Services produce mentally and physically intangibles, the quality of which is rated by consumer opinions, perceptions and expectations. As the consumer has a choice, in order to survive, it is essential for a service organisation to know how the service, the organisation and

its competitors are perceived. Therefore it is necessary for services, profit and not-for-profit, to conduct market research on regular intervals.

The intransparency of the service generally makes it difficult for (potential) consumers to evaluate the service correctly. Therefore it is important for an organisation rendering services to decrease the amount of associated risk while communicating with its target groups. To reach this goal using advertising, some recommendations could be made.

As services are intangible, both physically and mentally, and abstract by nature, a service-rendering organisation should act with great caution so as not to increase this intransparency and thereby the consumer's perceived risk² by means of its advertising. Intangibles are more difficult to assess and as a result may need more advertising.

Information in general and advertising in particular are possible risk reducers: ways to decrease the amount of perceived risk associated with services. Because of the special nature of services, advertising them without increasing their intransparency is not an easy task.

The organisation must communicate the various aspects of its service concept towards its target groups in order to position itself in the competitive environment of the selected market. An effective and continuous communication with its target segments is essential. Because it is difficult to use advertising alone in order to differentiate the service from its competitors, if the communication of a service is concerned, it all adds up to positioning the service. Next to advertising also the

other elements of the communication mix such as public relations and sponsoring should be involved.

The communication task is different according to the type of service. A typology as suggested by Nickels³ is used:

- convenience services;
- shopping services;
- professional services.

The convenience the first category is offering is usually time and place utility. Sometimes however competition is on low-budget pricing or on the availability of a wide product line. These are the benefits that should be communicated when advertising this service category.

The second category consists of services that are difficult to evaluate on quality prior to usage (experience qualities), leaving two ways of positioning itself: either on some kind of specialisation or on quality. Quality in particular is difficult to communicate, therefore it is useful to use some benefits as well. Benefits could be a long-standing experience ('established since'), reliability or the organisation's size ('the greatest in ...') or a kind of underdog position ('we try harder'). Shopping services especially benefit from word-of-mouth advertising, also leading to the acceptance of quality over time. Therefore, an important advertising task here is to initiate word-of-mouth.

A recently developed service gains more credibility by positioning itself one way or the other on uniqueness.

Let us go back to the first chapter, where the problems associated with the marketing of professional services were discussed. The issues faced nowadays do not concern

the question 'should-professionals-advertise' but with the question 'how-should-they-advertise'. Professional services are characterised by experience and credence qualities. Aspects to be communicated in this field are quality, professional image and trust. Less important features are convenient location, fast service and extended hours. Because the most important attributes are intangible, this implies a move towards corporate image communication based on a particular benefit, a competitive edge. Particularly important in this area is the building of a relationship with the customer.

In general it can be alleged that an important task of advertising⁴ is to *increase consumer satisfaction*. This is a universal statement which also applies in a marketing of goods setting of course. In service marketing however, increasing consumer satisfaction is more difficult because of the service's intransparency and variability⁵.

As discussed in chapter 1 performing excellent service quality can be a key strategic success factor for service organisations. It is assumed⁶ that service quality is perceived service quality and that satisfaction can only result when the perceived service level equals or exceeds the performance expected by the prospective customer.

Managing expectations and perceptions can be done by means of advertising together with the other communication mix elements. Promises are made and expectations built in order to differentiate the service organisation from its competitors. Raising unrealistically high expectations by means of advertising promises that can not be kept is tempting, but very dangerous. The consumers will easily be dissatisfied and frustrated and will start to look for

another service provider, which can certainly not be the advertising's aim.

As we have seen, Zeithaml⁷ clearly indicated how the consumer's evaluation process regarding services differs from his evaluation process regarding goods, particularly with respect to the importance of the so-called extrinsic attributes which are more important when services are involved. The quality of services is often difficult for consumers to judge. Therefore they heavily rely on extrinsic attributes like image-advertising about the organisation rendering the service or the price to be paid for the service.

To position the service also the peripheral clues are usually more important than the core service. Peripheral clues can also be the visual and therefore communicative aspects of the service marketing mix. Tangible cues are also important because consumers can use them to build their 'personal constructs'⁸ of reality.

Advertising campaigns are designed to influence consumers to behave in certain desired ways. Usually advertising is not only aimed at consumers, but also at the firm's employees, who form a potentially important 'second audience' because they should perform what customers must buy⁹. Advertising can also be used to influence the behaviour of employees. It can involve them, motivate them, educate them and shape their perceptions with respect to their job and the company they work for. Achieving and maintaining high quality employee performance is never easy. Nevertheless this form of internal marketing toward the company's employees is particularly important for service organisations, because of the opportunity to control the service's quality. The standardisation of the service by means of careful

training programmes for service deliverers can be communicated in the organisation's advertising.

6.4 Conclusion

A final conclusion. In this study we found that services are different from goods in several respects. These specific characteristics of services have their implications for marketing in general and advertising in particular.

The specific nature of services leads usually to a different consumer decision-making process. Different means divergent in several respects from what we know from literature - which mainly deals with consumers evaluating and buying goods. As the purpose of advertising is to influence consumer behaviour, when advertising the service-rendering organisation should bear these differences in mind.

One way to find out something about the effectiveness of advertising is on the basis of aggregate data. As mentioned in the first chapter, this kind of research is often done with good results with several kinds of fast-moving consumer goods.

As mentioned there is reasonable doubt about the use of aggregate data in service markets in order to investigate the effectiveness of marketing mix instruments. This doubt stems mainly from the lack (in the great majority of service markets) of appropriate data. Although with respect to the Dutch health insurance market the availability of such data is somewhat better than in other service markets, the specified model did not show a

significant relationship between advertising expenditure and market share. As a consequence, we were driven back on the individual data of the decision-making process as our main information source.